



# Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

NUMBER: 451.04.99.1 *Repealed June 30, 2000*

CONVERSION DATE: July 1, 1998

## CORPORATE DISTRIBUTION OF STOCK DIVIDENDS

Issued August 31, 1972

*Repealed June 30, 2000*

Does the corporate ownership of stock within this state and the distribution of dividends generated thereby constitute engaging in business sufficient for application of business and occupation tax?

Taxpayer corporations were registered with the Secretary of State to do business in Washington and were formed to own stock securities and receive and distribute stock dividends. All shareholders were members of the same family residing in Canada.

Taxpayers objected to the imposition of the Service and Other Activities classification of business and occupation tax assessed upon gross income received from distribution of dividends. Taxpayers argued that they were not "engaged in business" since they did not hold themselves out to the public as stockbrokers, but rather, merely exercised the passive ownership of stock coupled with acting as a conduit for distribution of dividends to shareholders.

The Department of Revenue ruled that the taxpayers satisfied the statutory definition of "engaging in business" and that the corporate ownership of dividend producing stock is a "financial business activity" under the Revenue Act.

RCW 82.04.430(1) provides that business and occupation tax does not apply to "Amounts derived by persons, other than those engaging in banking, loan, security, or other financial businesses, from investments or the use of money as such."

RCW 82.04.150 defines "engaging in business" to mean "commencing, conducting, or continuing in business and also the exercise of corporate or franchise powers."

Since the taxpayers were exercising their corporate powers in a financial business for the purpose of securing a financial gain, benefit, or advantage, the tax was applicable.

***ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.***

**To inquire about the availability of receiving this document in an alternate format for the visually impaired or language other than English, please call (360)753-3217. Teletype (TTY) users please call 1-800-451-7985.**

Please direct comments to:  
Department of Revenue  
Legislation & Policy Division  
P O Box 47467  
Olympia, Washington 98504-7467  
(360) 753-4161 eta@DOR.wa.gov